March 15, 2007

TO: Each Supervisor

FROM: Bruce A. Chernof, M.D.
           Director and Chief Medical Officer

SUBJECT: **STATUS OF THE PATIENT MANAGEMENT SYSTEM
               REPLACEMENT**

As instructed by the Board on December 6, 2005, the Department of Health Services (DHS), through its Office of Managed Care (OMC)/Community Health Plan (CHP or "Plan"), is providing semiannual status reports regarding the procurement of a replacement system for CHP's Patient Management System (PMS). This is to provide you with the second status report.

BACKGROUND

OMC is responsible for administering CHP, a Knox-Keene licensed health maintenance organization. CHP product lines include: 1) Medi-Cal Managed Care Program, 2) Healthy Families Program, 3) PASC-SEIU Homecare Workers Health Care Plan (aka In-Home Supportive Services Program), 4) County Temporary Employees, 5) Consolidated Ombudsman Budget Reconciliation Act (COBRA), and 6) Individual Conversion Plan. As of December 1, 2006, CHP's total enrollment was approximately 156,300.

PMS is the transaction processing system used by CHP primarily for eligibility verification and claims processing. The lack of functionality in PMS prompted a number of labor-intensive processes, manual interventions, and development of multiple ancillary database applications to meet the business and operational needs of the organization. With the growing needs and demands of the consumers and the increasing regulatory requirements of healthcare, it is imperative to implement an integrated core administrative health care payer solution to increase quality of care, ensure timely and accurate distribution of information, and reduce duplication of effort through efficient and effective health information technology.

Studies conducted by Outlook Associates, Inc. in February 2002, Milliman, Inc. in July 2003, and Simpson & Simpson's annual independent audit reports in February 2005 and December 2005 indicated CHP lacked the infrastructure to effectively manage the enrollees enrolled with the Plan, including limitations and deficiencies with its information systems. In June 2005, the Joint Audit Committee expressed support for replacing PMS with a managed care system solution to meet the needs of the Plan.

The strategic direction for the integrated system solution is to acquire services from a qualified Application Service Provider (ASP). ASPs are vendors that provide application hosting services which includes the hardware, software, and in some scenarios, networking infrastructure to enable the organization to run standardized applications over a secured virtual network.

ACTIVITIES

The following is the status of activities during the second half of 2006:

- In September 2006, OMC Information Systems conducted an Information Technology (IT) survey in the areas of core payer systems, ancillary systems, and staffing of other "like" California health plans similar to the product lines and administrative structure between the Los Angeles County Department of Health Services and the CHP. The five health plans contacted are as follows:

#	Health Plan	County	Est. Enroll.
1	CalOptima (CO)	Orange	330,000
2	Contra Costa Health Plan (CCHP)	Contra Costa	65,000
3	Health Plan of San Mateo (HPSM)	San Mateo	55,000
4	Inland Empire Health Plan (IEHP)	Riverside/San Bernardino	296,232
5	San Francisco Health Plan (SFHP)	San Francisco	50,300

Results of the survey concluded:

- o CO and CCHP health plans purchased TriZetto Group, Inc.'s Facets systems, IEHP purchased Perot Systems Corporation's Diamond system, HPSM purchased Amisys, and SFHP developed an in-house system.
- o Ancillary systems ranged from three to eight systems, including Finance/General Ledger, Member Service Call Tracking, Case Management, Disease Management, and Web-based Interactive Applications, e.g., eligibility verification, claims status, etc. All that were surveyed outsourced Claims scanning and developed in-house a data warehouse for Health Plan Employer Data and Information Set (HEDIS) reporting and management reporting/decision support.
- o IT operating costs were not available from the contacted health plans. However, in the Fall of 2005, Gartner Custom Research conducted the 2005 Healthcare IT Payer study of sixty-seven organizations. In February 2006, Gartner, Inc. presented the following averaged key findings for independent-owned organizations, which included public entities:

  - IT Operating Budget: $2.12 Per Member Per Month
  - IT Staffing Budget: 50% of IT Operating Budget
  - IT Staffing Full Time Employees: 6.62 FTEs and 2.27 Contracted FTEs per 100,000 Covered Lives

- In October 2006, DHS Information Resource Management (IRM) reviewed the draft Request for Proposal (RFP) to acquire services from a qualified, fully-integrated healthcare payer system vendor to support the growing regulatory, reporting, and business needs of CHP. IRM recommended technical changes to the RFP, which is currently being modified.

- In October 2006, CHP submitted a work order to the Internal Services Department (ISD) for obtaining services from a consultant to provide research, analysis, recommendations, development/review of specification and requirement documents (e.g., Request for Proposals, Request for Bids), development/review of evaluation tool for vendor responses and vendor selection criteria, and development/review of agreement.

  ISD management reviewed the work order, and it is currently with ISD Contracts. The department anticipates this work order will be sent to qualified vendors in March 2007, and a vendor selection will be made and the work order executed by April 2007.

NEXT STEPS

The next steps are to:

- Complete technical modifications to the RFP, as recommended by IRM, by March 2007.
- Acquire consulting services by April 2007 to provide expertise in the research, analysis, development/review of specification and requirement documents, and development/review of agreement.
- Finalize and release the RFP by October 2007 to acquire services from a qualified ASP to meet the regulatory, reporting, and business needs of CHP.
- Review vendor proposals and select vendor by December 2007.
- Develop and execute contract by June 2008.
- Configure application software and develop procedures by December 2008.
- Complete data conversion, parallel testing, and acceptance testing by September 2009.
- Train staff and conduct system cut-over by December 2009.

Please let me know if you have any questions, or require additional information.

BAC:kc
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